

REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL PARLIAMENT AND THE COUNCIL ON THEEWATERSKLOOF MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Theewaterskloof Municipality set out on pages 3 to 68, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Theewaterskloof Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

8. As disclosed in note 38 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of an error discovered during 30 June 2012 in the financial statements of the Theewaterskloof municipality at, and for the year ended, 30 June 2011.

Material impairments

9. As disclosed in notes 30 and 32 to the financial statements, material losses to the amount of R32 421 930 and R41 290 590 were incurred as a result of a write-off of irrecoverable trade debtors and fair value adjustments to property, plant and equipment and investment properties respectively.

Material underspending of the budget

10. As disclosed in note 44.3 to the financial statements the municipality has materially underspent its capital budget to the amount of R18 million (22%). As a consequence, the municipality has not completed its planned capital projects in respect of road-works, waste water management, water works and pre-paid electricity upgrades.

Additional matter

11. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

12. The supplementary information set out on pages 69 to 73 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

13. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

14. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages 1 to 46 of the annual report.
15. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

16. The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
17. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Additional matter

18. I draw attention to the following matter below. This matter does not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

19. Of the total number of 78 targets planned for the year, 36 were not achieved during the year under review. This represents 46% of total planned targets that were not achieved during the year. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process.

Compliance with laws and regulations

20. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Budgets

21. Expenditure was incurred that was in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

Annual financial statements, performance and annual report

22. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements for investment property, property, plant and equipment and provisions identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

23. Awards were made to providers whose directors/principal shareholders are persons in service of other state institutions, in contravention of Municipal Supply Chain Management Regulations, 2005, regulation 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the supply chain management (SCM) process in accordance with Municipal Supply Chain Management Regulations, 2005 regulation 38(1).

Expenditure management

24. The accounting officer did not take effective steps to prevent unauthorised expenditure and irregular expenditure, as required by section 62(1)(d) of the MFMA.

Asset management

25. The accounting officer did not take all reasonable steps to ensure that the municipality maintains an information system which accounts for inventory, as required by section 63(2)(a) of the MFMA.

26. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Internal control

27. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

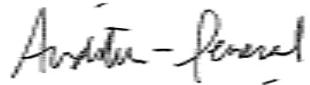
Financial and performance management

28. Management did not implement and maintain a proper record keeping system to control inventory as required by section 63(2)(a) of the MFMA.
29. Management did not put adequate processes in place to ensure that credible financial statements in compliance with the reporting framework are prepared.
30. Management did not properly review and monitor compliance with applicable laws and regulations resulting in the municipality doing business with persons in service of the state.
31. Management did not implement sufficient controls to ensure the monitoring of expenditure against the budget for the municipality in accordance with the requirements of the MFMA. Management furthermore did not implement effective internal control measures for the maintenance of a complete fixed asset register as required by the MFMA. This was as a result of regular reconciliations for property plant and equipment not being performed and reviewed.

OTHER REPORTS

Investigations

32. Possible irregularities are being investigated that relates to contract management at the housing section.



Cape Town

20 December 2012



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence